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Freedom of Information Act

February 4, 1985

VIA FEDERAL EXPRESS

Mr. Dana Abrahamson  
Premerger Notification, Room 301  
Federal Trade Commission  
Sixth & Pennsylvania Avenue, N.W.  
Washington, D.C. 20380


FEB 5 9 41 AM '85

Dear Mr. Abrahamson:

This letter will confirm our telephone conversation of January 2 concerning the question of whether premerger notification is required for a contemplated leveraged buyout transaction. In the hypothetical situation we discussed, you pointed out that there are two potentially reportable events: 1) the formation of the entity or entities to make the buyout and 2) the buyout itself. With regard to the latter, you stated that the buyout is not reportable.

Your views are based upon the following scenario:

- 1) A and B are corporations specially organized for the purpose of making a leveraged buyout of X, a publicly held corporation.
- 2) Z is a wholly owned subsidiary of A, and because none of the shareholders of A owns 50 percent or more of A's outstanding voting securities, A is the ultimate parent entity.

  
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- 3) A has \$50 million in equity, although no more than \$15 million of it is voting stock. An additional \$290 million will be provided by B through bank debt and the sale of notes and debentures.
- 4) X, the subject of the buyout, is a non-manufacturing company with greater than \$100 million in assets or sales.
- 5) B is to merge into X, with X being the surviving company.
- 6) To cash-out the existing shareholders of X and the employees of X who hold stock options, as well as to pay all fees and expenses, A will use all or essentially all of the funds available to it, leaving A with less than \$10 million in assets immediately after the buyout. Of course, this residual amount excludes the assets of X acquired in the transaction.

If this letter accurately reflects our conversation or if you wish to clarify or supplement our description of your conclusions, please call us as soon as possible. In the interim, thank you for your cooperation and assistance.

Sincerely,  
  
